# HOUSING MARKET OUTLOOK
## Victoria CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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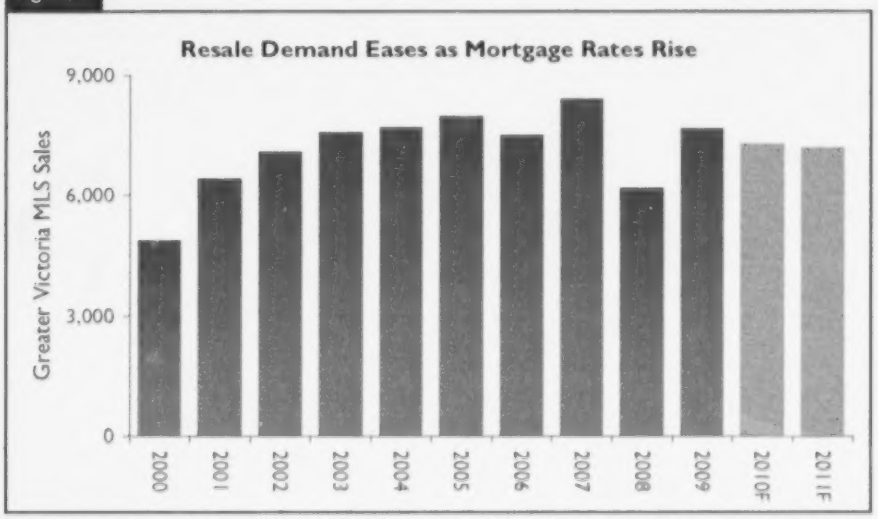
## Victoria Highlights

- Rising mortgage rates and reduced demand from first-time buyers will dampen resale demand through the second half of 2010 and into 2011.
- Resale market will return to more balanced market conditions in 2010.
- Average resale home prices will edge up due to solid demand during the first half of 2010.
- Improved economic conditions supporting housing demand will result in increased housing starts in 2010 and 2011.
- Average vacancy rates will edge up in 2010 as more renters make the move to homeownership in the first half of the year and the secondary market grows.

Figure 1




Source: CMHC, adapted from MLS® data supplied by CREA. MLS® is a registered trademark of the Canadian Real Estate Association.

### Table of Contents

1 Victoria Highlights
2 Resale Market
2 New Home Construction
3 Rental Market
3 Economy
5 Forecast Summary

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## Resale Market

The rebound in Greater Victoria existing home sales in 2009 was the result of improved economic conditions, continued low mortgage rates, and lower price levels. While improved economic conditions will have a positive impact on existing home sales, two factors will dampen demand during the second half of 2010 and into 2011: (1) rising mortgage rates; and (2) lower demand from first-time home buyers. Following a 24 per cent jump in 2009, existing home sales through the Multiple Listing Service® (MLS®)[1] will decline slightly to 7,300 this year and edge down to 7,200 in 2011.

A return to more balanced market conditions is expected in the second half of 2010. With existing home sales projected to moderate over the second half of 2010 and MLS® listings increasing in response to rising prices, the sales-to-new listings ratio will fall from the 2009 annual average of 65 per cent to an annual average of between 45 and 60 per cent this year. This level is consistent with a balanced market, one that favours neither buyers nor sellers, and is characterized by prices rising at about the rate of general inflation.

After a price correction in 2008 and rebound in 2009, existing home prices across Greater Victoria will increase in 2010 and 2011 in response to above average levels of resale demand. Prior to the most recent price correction, the average existing home price in Greater Victoria peaked at $499,000 in the first quarter of 2008. The onset of weaker economic and labour market conditions and eroding consumer sentiment had a dampening effect on resale market demand, which in turn caused the average price to fall 12 per cent from the peak (first quarter of 2008) to trough (first quarter of 2009).

Figure 2

Source: CMHC

Following the recent decline in home prices, it took only one year for the average Victoria resale price to surpass the previous peak (first quarter of 2010: $504,500). Prices rebounded as pent-up demand was released by first-time home buyers taking advantage of low mortgage rates and lower prices. The anticipated move to more balanced conditions combined with growing demand for moderately priced homes will put less upward pressure on resale prices in 2010 and 2011. This compositional shift reflects changing consumer preferences and demographics, a trend worth noting for local builders and realtors. Potential home buyers will find an increasing number of condominiums units in recently completed multi-unit developments offered for sale on MLS®, boosting the stock of modestly priced homes.

The average Greater Victoria resale price is projected to rise seven per cent this year and three per cent in 2011. Most of the 2010 price increase will occur early in the year.

## New Home Construction

Victoria area homebuilders will increase starts in both 2010 and 2011, following three consecutive years of moderating residential construction activity. A rebound in housing starts will result from improving economic conditions and continued positive net migration to the region. Housing starts are forecast to increase over 50 per cent to 1,570 in 2010, and rise an additional 22 per cent in 2011, bringing the level of homebuilding back to its long-term average[2].

A gradual recovery in the levels of multi-family construction is projected for the Capital region over the next two years. The region is coming off a year where the lowest number of multi-family (semi-detached, townhouse, and apartment) housing starts was recorded since 2000[3]. This

[1] Multiple Listing Services (MLS) is a registered certification mark owned by the Canadian Real Estate Association (CREA).
[2] 10-year annual average (2000-2009): 1,817, and 5-year annual average (2005-2009): 2,063 housing starts.
[3] 387 multi-family starts were recorded in 2009 and 341 in 2000.

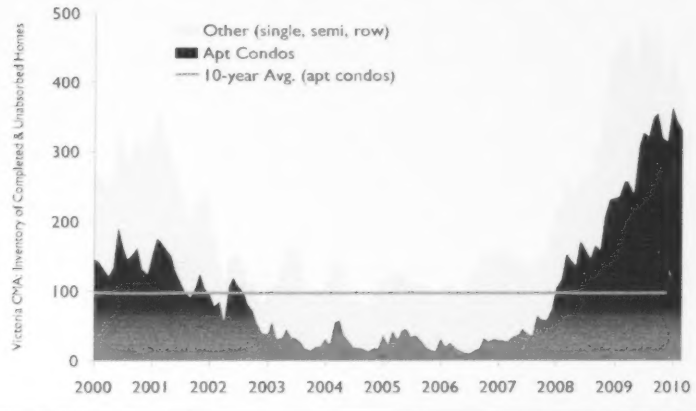
level will nearly double in 2010, but remain below the 10-year average as developers wait for improved market conditions.

Through the first quarter of 2010, 331 completed apartment condominiums remained unsold across the Victoria CMA – well above the monthly average over the past ten years (96). The continued absorption of this inventory, combined with a growing economy, will generate homeownership demand and prompt developers to proceed with several approved multi-family projects in 2011.

While multi-family construction will slowly increase over the next two years, single-detached starts will exceed the 10-year average both this year and next. The majority of single-detached home construction will occur in West Shore markets, where there is good availability of developable land at favourable prices for homebuilders. In 2009, over 40 per cent of single-detached housing starts within the Victoria CMA were located in Langford. The average sale price of a new house in Langford in 2009 was $573,000, which is comparable to the price of many new downtown Victoria apartment condominiums[1].

Figure 3

**Inventory of Apartment Condominiums Above Long-Term Average**




Source: CMHC

## Rental Market

Renters will continue to have an easier time finding accommodations in Victoria in 2010, as average vacancy rates will edge up this year before dipping in 2011. A number of renters will take advantage of the historically low mortgage rates through the first half of 2010 and make the move to homeownership. In addition, a growing stock of secondary rental units will mean more vacancies in both secondary units and in purpose-built apartments. The effect of these two factors will outweigh the incremental rental demand generated from improved economic and labour market conditions in 2010. As a result, slightly higher vacancy rates (1.5 per cent) and a three to five per cent increase in average rents (in existing rental structures) are forecast for 2010. Continued job growth and higher mortgage rates will cause vacancy rates to fall to 1.2 per cent in 2011.

## Economy

The short-term economic outlook for the Capital Region is positive for the housing sector. Demand for housing in 2010 and 2011 will be supported by increasing levels of non-residential investment, growth in the economy and employment, as well as more people moving to the region.

The Victoria CMA economy will benefit from continued robust levels of non-residential construction in 2010 and 2011. Statistics Canada reports that nearly $400 million worth of non-residential building permits were issued in 2009 by local municipalities, up 42 per cent from 2008[2]. It is anticipated that foundations will be poured in 2010 and 2011 on a significant portion of the projects for which permits were issued in 2009.

Fuelled by increased levels of residential and non-residential construction, the Capital region economy, as measured by real gross domestic product (GDP), will grow both this year and next. After contracting by an estimated one per cent in 2009, the Victoria CMA's economy is projected to expand by 3.2 per cent in 2010, and a further 2.8 per cent in 2011[3].

Improved labour market conditions are projected for the Capital region

[1] The average new downtown Victoria apartment condominium price was obtained from MLS®, and was based on 2009 sales of units located in new buildings (built in 2008 or 2009).

[2] Source: Statistics Canada – seasonally adjusted value of building permits.

[3] Source: Conference Board of Canada – "Metropolitan Outlook 1, Spring 2010".

this year and next. After a year-long contraction in the level of Victoria CMA employment, total employment (part-time and full-time jobs) hit a plateau in May 2009[7]. Since levelling off, 5,800 part-time jobs have been generated, contributing to a 3.4 per cent increase in total employment (May 2009-March 2010). While part-time jobs are important, full-time jobs have the greatest impact on the local demand for housing and have not yet recovered to previous levels. Layoffs within the Provincial Government's workforce over the next couple years will be partially offset by an increase in the number of construction jobs.

Figure 4

Source: CMHC

The flow of people moving to the Capital region from other parts of the province, country and abroad will remain strong over the next two years. Positive net migration to the region of between 4,000 and 5,000 persons per year is projected for 2010 and 2011. This will benefit the local housing market and economy, as the new residents will be in need of housing.

**Mortgage Rates:** The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

[7] Source: Statistics Canada – seasonally adjusted level of total employment.

| Forecast Summary<br>Victoria CMA<br>Spring 2010 | 2007 | 2008 | 2009 | 2010f | % chg | 2011f | % chg |
|---|---|---|---|---|---|---|---|
| **Resale Market** | | | | | | | |
| MLS® Sales | 8,403 | 6,171 | 7,660 | 7,300 | -4.7 | 7,200 | -1.4 |
| MLS® New Listings | 12,840 | 13,928 | 11,745 | 11,800 | 0.5 | 12,600 | 6.8 |
| MLS® Average Price ($) | 466,974 | 484,898 | 476,137 | 508,000 | 6.7 | 522,000 | 2.8 |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 795 | 673 | 647 | 830 | 28.3 | 850 | 2.4 |
| Multiples | 1,784 | 1,232 | 387 | 385 | -0.5 | 650 | 68.8 |
| Semi-Detached | 213 | 154 | 186 | 180 | -3.2 | 200 | 11.1 |
| Row/Townhouse | 158 | 150 | 62 | 65 | 4.8 | 100 | 53.8 |
| Apartments | 1,413 | 928 | 139 | 140 | 0.7 | 350 | 150.0 |
| Starts - Total | 2,579 | 1,905 | 1,034 | 1,570 | 51.8 | 1,910 | 21.7 |
| **Average Price ($):** | | | | | | | |
| Single-Detached | 629,278 | 676,701 | 668,875 | 660,000 | -1.3 | 655,000 | -0.8 |
| **Median Price ($):** | | | | | | | |
| Single-Detached | 564,450 | 599,900 | 599,900 | 594,000 | -1.0 | 590,000 | -0.7 |
| New Housing Price Index (% chg.) | 0.5 | -0.1 | -7.8 | 1.0 | - | 1.0 | - |
| **Rental Market** | | | | | | | |
| October Vacancy Rate (%) | 0.5 | 0.5 | 1.4 | 1.5 | 0.1 | 1.2 | -0.3 |
| Two-bedroom Average Rent (October) ($) | 907 | 965 | 1,001 | 1,050 | - | 1,100 | - |
| One-bedroom Average Rent (October) ($) | 716 | 764 | 790 | 815 | - | 830 | - |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 6.90 | 6.70 | 4.02 | 4.23 | 0.2 | 5.56 | 1.3 |
| Mortgage Rate (5 year) (%) | 7.07 | 7.06 | 5.63 | 6.20 | 0.6 | 7.06 | 0.9 |
| Annual Employment Level (persons) | 182,900 | 190,900 | 181,400 | 186,000 | - | 189,500 | - |
| Employment Growth (%) | 4.4 | 4.4 | -5.0 | 2.5 | - | 1.9 | - |
| Unemployment rate (%) | 3.3 | 3.3 | 6.4 | 6.6 | - | 6.2 | - |
| Net Migration (B.C.) | 58,819 | 63,320 | 58,571 | 61,600 | 5.2 | 63,100 | 2.4 |

MLS® is a registered trademark of the Canadian Real Estate Association (CREA)

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over

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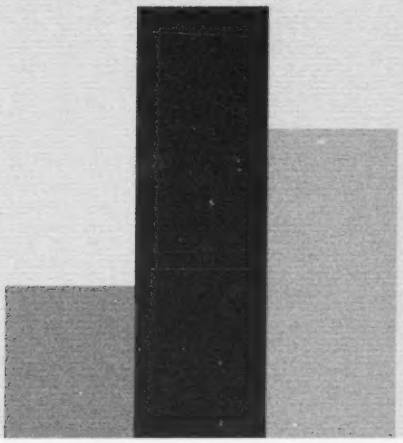

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